



USAID



The United States Agency for International Development

Global Development Alliance

Lusaka, Zambia

November 5, 2003

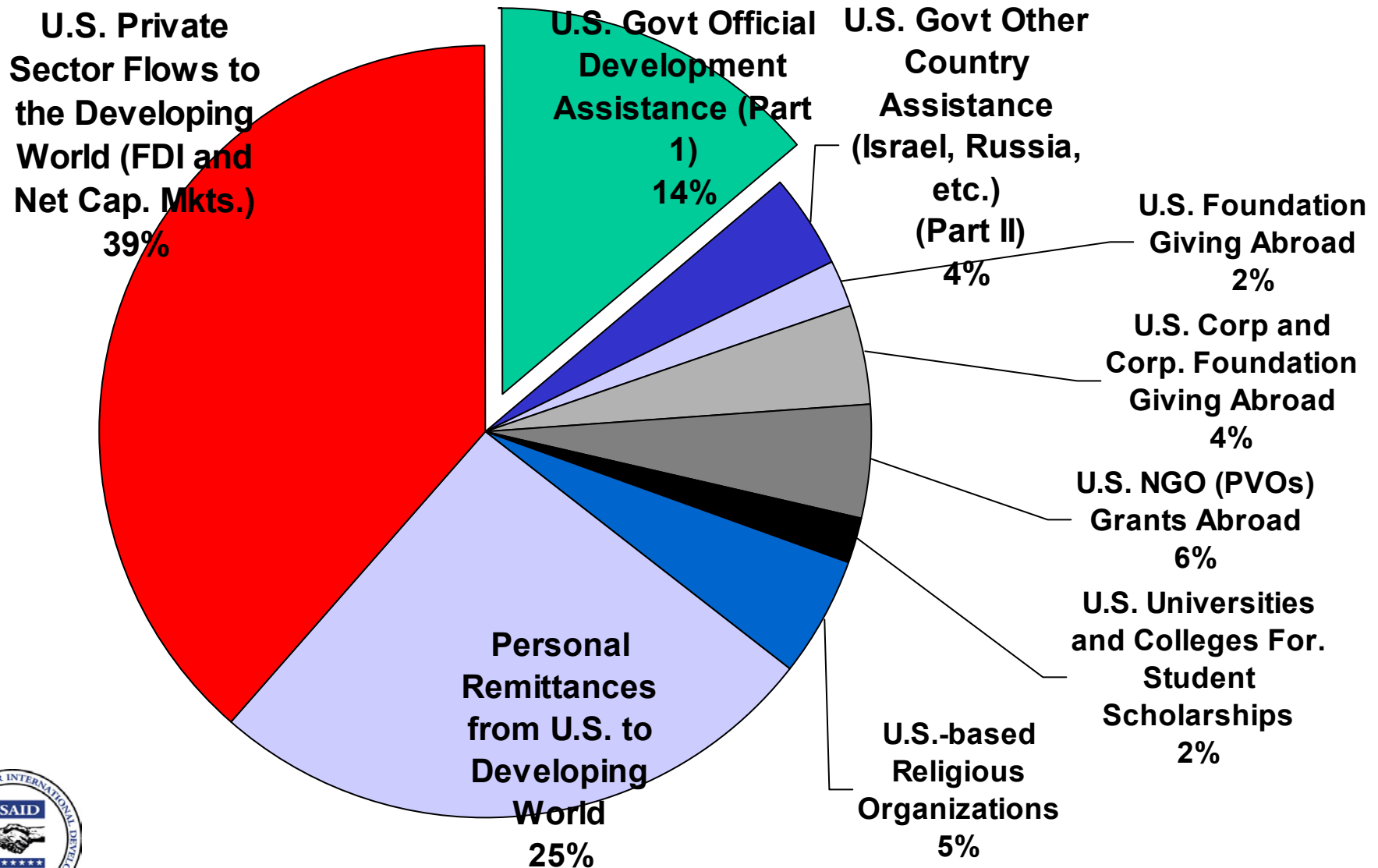


Presentation Overview

- What Is GDA? What is it not?
- How can I benefit from participation?
- How do I participate?



U.S. Total Flows to the Developing World in 2000: \$70.5 BN



Characteristics of GDA Alliances

- ✓ Joint definition of the development problem and its solution
- ✓ Partners sharing resources, risks and development results in pursuit of an objective better obtained by joint efforts
- ✓ Often using innovative approaches to work with new partners or traditional partners in new ways
- ✓ 1:1 Leveraging of Resources – financial or in-kind



Steps to the Creation of Successful Alliances

- ✓ **Know Why You Want to Collaborate in an Alliance: Why are we doing this?**
- ✓ **Finding Compatible Partners: with whom should we work?**
- ✓ **Finding the Right Strategic Fit Among Your Partners: What can we accomplish together?**
- ✓ **Define Expectations and Record Agreements: How are we going to work together?**



Incentives for Business to Work with USAID

- ✓ Opportunity to address critical social issues through an approach building on commercial expertise and strengths
- ✓ Joint project development
- ✓ Collaboration with policymakers and key institutions
- ✓ Development expertise
- ✓ Network of local and global partners



What GDA Partners Bring

- ✓ **Know-How**
- ✓ **Resources**
- ✓ **Markets**
- ✓ **Activity Design Better Connected to Market Realities**
- ✓ **Skills, Services & Expertise**
- ✓ **Technology & Intellectual Property**



GDA in Africa: A Thematic Approach

✓ The Millennium Development Goals were established by the UN system in advance of the year 2000 to provide specific targets for poverty reduction by 2015. [INSERT MDGs BELOW]

- ✓ **Poverty**
- ✓ **Education**
- ✓ **Gender equality**
- ✓ **Child mortality**
- ✓ **Maternal health**
- ✓ **Disease**
- ✓ **Environment**



USAID Zambia Strategy Framework

S05

Increased Private Sector Competitiveness in Agriculture and Natural Resources

Increased access to markets

Enhanced value-added production and service technologies

Increased access to financial & business development services

Improved enabling environment for growth

S06

Improved Quality of Basic Education for More School Aged Children (Phase II)

Improved quality of basic education delivery systems

Improved information for efficient resource management

Strengthened policy implementation for basic education

S07

Improved Health of Zambians

Zambians taking action for health

Maintenance of high coverage of key health interventions

Strengthened health services

S08

Government Held More Accountable

Enhanced accountability through rule of law

Citizens and Civil Society Organizations demanding accountability

Effective oversight institutions

S09

Increased Impact of HIV/AIDS Through Multisectoral Response

Reduced HIV/AIDS transmission

Improved care and support for people living /affected by HIV/AIDS

Strengthened capacity of key sectors to mitigate the HIV/AIDS impact

Improved policy and regulatory environment for HIV/AIDS

Case Study: Angola Partnership Initiative

- ✓ **USAID/Angola, ChevronTexaco, UNDP and the Angolan government have partnered on a \$50mm project to promote sustainable investment.**
- ✓ **The Enterprise Fund is a \$20mm investment to restart Angolan agriculture and SMEs to aid in recovery from the civil war.**
- ✓ **The hunger relief aspect of the plan will reach 160,000 rural families AND establish 200 farmers' associations.**
- ✓ **All partners are leveraging resources to generate sustainable results.**



Case Study: Coca Cola in Angola

- ✓ Partners Coca-Cola, SABMiller, UNAIDS, , the ILO and the CDC have worked to provide ARVs and education to workers and communities throughout Angola.
- ✓ Funds come from – in part – the Coca-Cola Africa Foundation.
- ✓ Efforts also are made to leverage Coca-Cola's transportation network.



Case Study: Sustainable Cocoa Alliance

- ✓ **The US Chocolate Manufacturers Association, USAID and local suppliers have teamed up to ensure fair labor practices in the harvesting of cocoa**
 - ✓ **USAID-assisted farmer groups have benefited from in-kind contributions of technical assistance, research findings, and preferential purchasing terms.**
 - ✓ **The chocolate manufacturers, for instance, are contributing over \$1 million per year in-kind and in cacao-purchasing premia to these collaborative efforts.**
 - ✓ **More recently, the high-tech information industry has also taken an interest, as a basis for "bridging the digital divide" through e-commerce and remote sensing and geographic information systems (GIS) technologies to assure product source and quality.**



Africa GDA Summary for FY 02

- ✓ Africa region has launched 34 GDA, with 6 in Zambia
- ✓ USAID funding of approximately \$2.5 million
- ✓ Leveraging approximately \$5.3 million in partner contributions



Lessons Learned

True partnership involves shared problem definition and joint design of solutions

Partners want to be involved at the front end, not invited to join after major decisions have been made

Alliances do not follow a straight line

Alliances take time



Global Development Alliance Contacts

For further information on the Global Development Alliance, visit the GDA homepage at

<http://www.usaid.gov/gda/>

OR CONTACT

ZAMBIA USAID MISSION...





Corporate Social Responsibility: A View from BSR

***Prepared for: USAID/GDA
Lusaka, Zambia
November 5, 2003***



About BSR

Mission: “To create a just and sustainable world by working with companies to promote more responsible business practices, innovation and collaboration”

- Structure:

- ▶ Non profit global business membership organization
- ▶ Board of respected business leaders
- ▶ Offices in San Francisco, Hong Kong and Paris
- ▶ Global network of affiliates

- Funding: 2/3 companies; 1/3 foundations/public sector

- Activities: information, education and training, advisory services, facilitation of dialogue

www.bsr.org



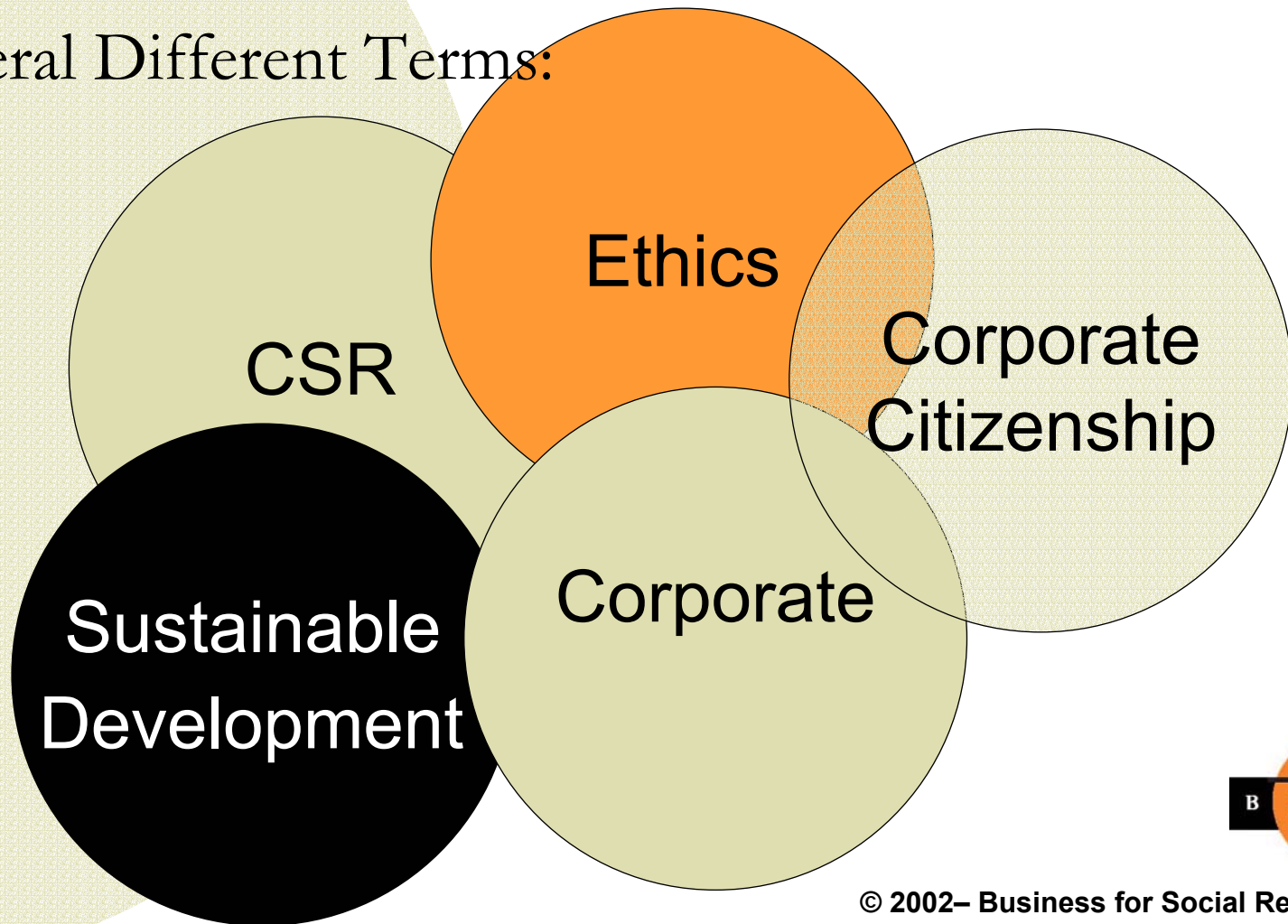
Illustrative List of Companies working with USAID

- Agriflora
- BP
- Cheetah Zambia
- Chevron Texaco
- Cisco Systems
- The Coca-Cola Company
- McDonald's Corporation
- Microsoft
- Nestle
- Novartis
- Procter & Gamble
- Royal Dutch/Shell
- SABMiller



What is CSR?

Several Different Terms:



Corporate Social Responsibility: What it is...

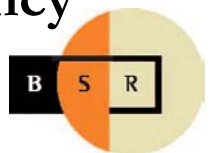
*Achieving commercial success
in ways that honor ethical values and
respect people, communities, and the
natural environment*



CSR Around the World

Current Focus

- US – The post-Enron environment: (governance, executive compensation, ethics), labor standards, compliance driven
- Africa – Conflict and development: Health, education, conflict resolution, resource protection, reparations
- Europe – Debate over the EU's role: Food/health, climate, transparency/exec compensation, enlargement, social exclusion
- Latin America – Fraying of the Washington consensus: Democracy; poverty/income disparity; education, trade and CSR
- Asia – Great regional variance: Philanthropy, volunteering, environmental compliance, ethics, governance/transparency



Private Sector Influence

Business Can

- Undermine democratic governments
- Bribe and corrupt
- Fight unions
- Undermine communities
- Degrade the environment
- Obstruct

OR

Business Can

- Promote peace, stability and dialogue
- Support transparency
- Support human rights
- Revitalize communities
- Sustain natural resources
- Collaborate



The Public Sector's Essential Role

- Much of the CSR debate has resulted from a “governance deficit.”
- The public sector is able to do certain things the private sector cannot or will not.
- The pendulum is swinging back to recognition of the role of the public sector.
- Development is an increasing focus for companies (but compliance and reputation remain important)



Ten Critical Issues

Convergence with the development agenda

- Governance (corporate and general)
- Conflict and community dialogue
- Climate change
- Human rights/labour rights
- Social exclusion/equity (privatization of quasi-public goods)
- Disclosure/transparency
- Diversity/Equal opportunity
- Product stewardship/take back
- Formal legal liability and accountability
- Global Ethics (bribery/bio-technology/privacy)



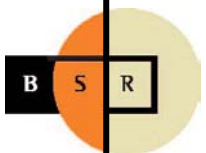
Business Incentives to Partner

- License to operate
- Increased access to resources
- Better access to information and risk management
- Building social capital needed for commercial success
- Better educated workforce
- Improved operational efficiency
- More effective products and services
- Enhanced reputation and credibility



Companies: What Motivates Them?

	Motivations	Issues of Interest	Timeframes
Infrastructure Investors	License to operate; stable operating environment; local staff availability	Human rights; conflict; community development; rule of law; sustainable development	Long-term
Market Motivated	Brand reputation; market creation	Community investment; Product impact/pricing	Long-term
Supply Chains	Reputation; stable operating environment and logistics	Labor and environment	Short-term (with some exceptions)
National or Regional	Stable operating environment; economic development; staff availability	Community investment	Long-term





*An Innovative Catalyst
for Private Investment
in Developing Countries...*

The Development Credit Authority





Capital in Less Developed Countries

The long-standing situation...

- Limited availability or access to credit
- Inefficient and underdeveloped financial markets
- Stagnation of local economic growth
- Need for expansion into new sectors

At a closer look...

- Abundant excess liquidity
- Potential for further development of financial markets
- Investments can be profitable
- Need for effective methods to leverage those funds





Aspects of Economic Growth

- Access to credit fuels economic growth
- In developed countries easy to obtain start-up loan to launch a new business or get a mortgage loan for a new home
- Less developed nations sorely lack this access to financing
- Key challenge to development is to improve access to credit





One Innovative Financing Option

The Development Credit Authority (DCA)

- The legal authority allowing Missions to issue partial guarantees on loans made by private sector lenders
- These guarantees provide a way to encourage local capital funding of projects to advance USAID development objectives





DCA - what it does

- ✓ **Encourages lending by local banks** to new sectors and **increased financing to established development activities**
- ✓ **Enables financing of 'bankable' projects** that otherwise lack access to credit from private financial markets
- ✓ **USAID shares loss from defaults with private sector partner up to 50%** of principal on loans under coverage
- ✓ **Covers debt denominated in local currency**, so exchange rate risk is eliminated
- ✓ **Demonstrates the financial viability of lending** to promote interest by and expansion of participation in credit market
- ✓ Provides opportunity for development of sustainable credit operations through **technical assistance to lenders and borrowers**





DCA – the benefits

Risk shared when borrower doesn't pay

- for every dollar loaned under guarantee, USAID will cover up to 50% of the principal

Technical assistance

- provides courses and hands-on work for banks and borrowers to learn by doing

Bank training

- improves knowledge base - ability to assess and manage risk

Uses banks' knowledge and resources

- banks have local expertise to decide what loans should be put under coverage
- banks share the risk, are able to perform the due diligence and monitor the loans

Creates partnerships with private sector businesses

- develops relationships and provides new business opportunities

Sustainability

- the education and relationship building remain, whether the USG is there or not





DCA Products – what is offered

Loan Guarantee

- Financial institution receives up to 50% coverage on principal amount of loan

Portable Guarantee

- A DCA letter of commitment allows borrower to seek best terms from financial markets

Bond Guarantee

- Protects investors on a portion of a bond issuance. Used for municipal or private sector financing

Portfolio Guarantee

- Financial institution receives up to 50% coverage on principal amount of a portfolio of loans they provide to their customers





DCA example - Housing Finance

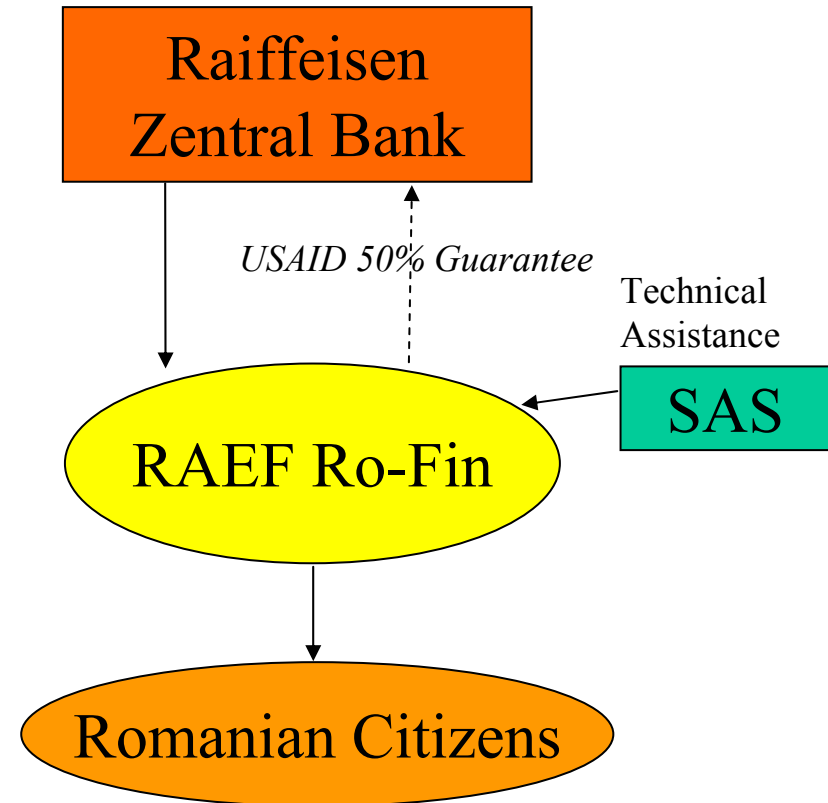
Romania

Loan Guarantee

Total Amount for Loans: \$7,000,000

Portion Guaranteed: \$3,500,000

Purpose: Provides a partial guarantee to a private bank to mobilize long-term funds for mortgage loans extended by RAEF-- Ro-Fin.





DCA - Municipal Energy Infrastructure

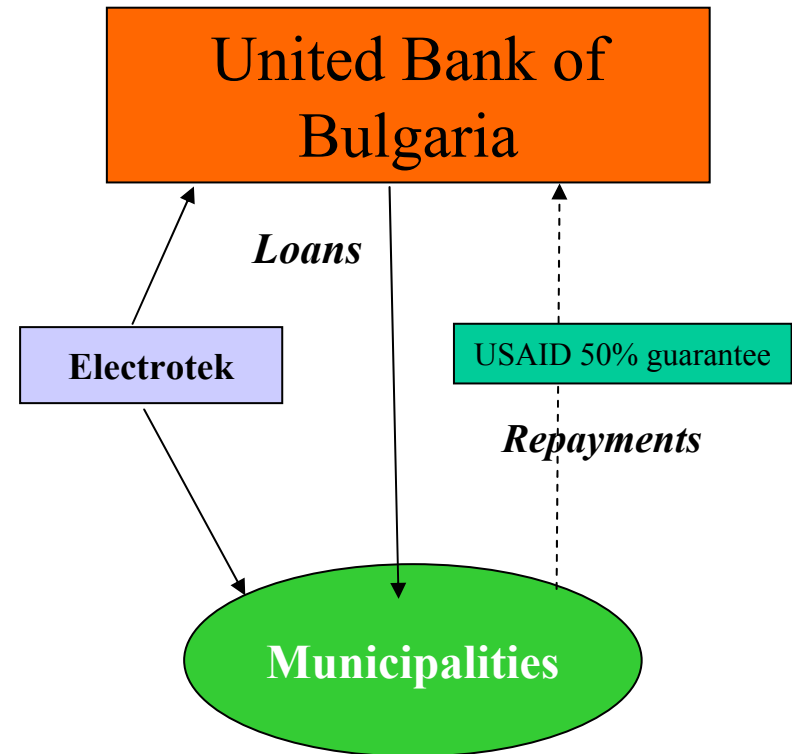
Bulgaria

Loan Portfolio Guarantee

Total Loan Amount: \$10,000,000

Portion Guaranteed: \$5,000,000

Purpose: Provides a guarantee to a bank that lends long-term funds to municipalities seeking to invest in energy efficient technologies.





DCA Example- Straight Loan Guarantee

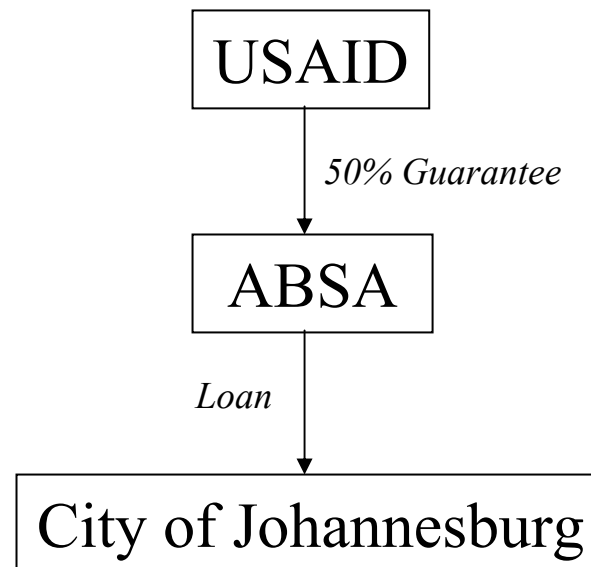


South Africa

Type: Loan Guarantee

Amount: \$25,000,000

Purpose: Provides a partial loan guarantee to a private sector bank for a loan made to the City of Johannesburg for the financing of water, sewerage, utilities, and other infrastructure projects in the metropolitan area.





DCA Example Portable re-Guarantee for HIV/AIDS

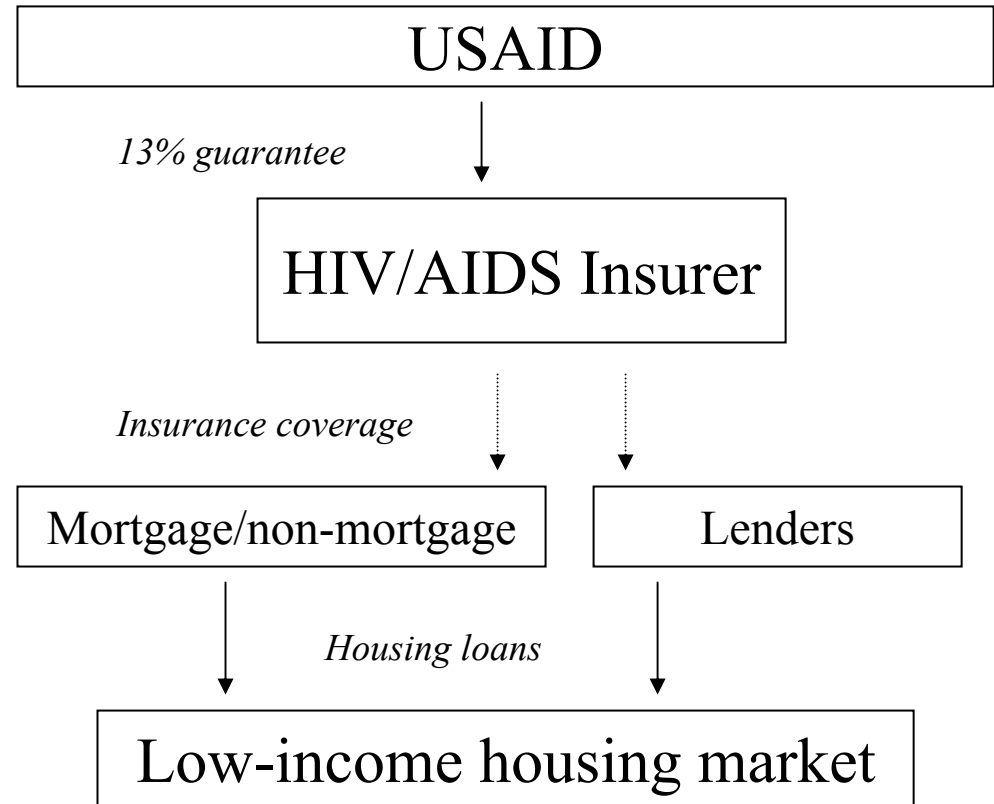


South Africa

Type: Portable Re-Guarantee

Amount: \$26,000,000

Purpose: Partially guarantee a private sector insurer's coverage of AIDS-specific incapacitation and bank loan defaults in lower income housing market.





DCA example - Agriculture

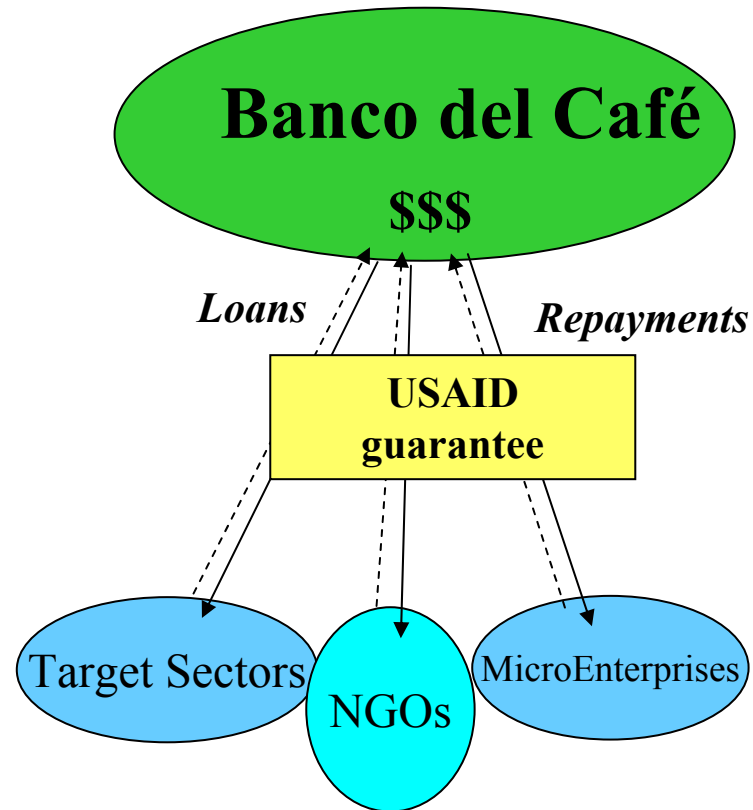
Guatemala

Loan Portfolio Guarantee

Total Loan Amount: \$5,000,000

Portion Guaranteed: \$2,500,000

Purpose: To promote public and private sector investments in rural market towns to provide agribusinesses with expanded opportunities for processing and selling their products.





DCA Example Loan Portfolio Guarantee for SMMEs

39

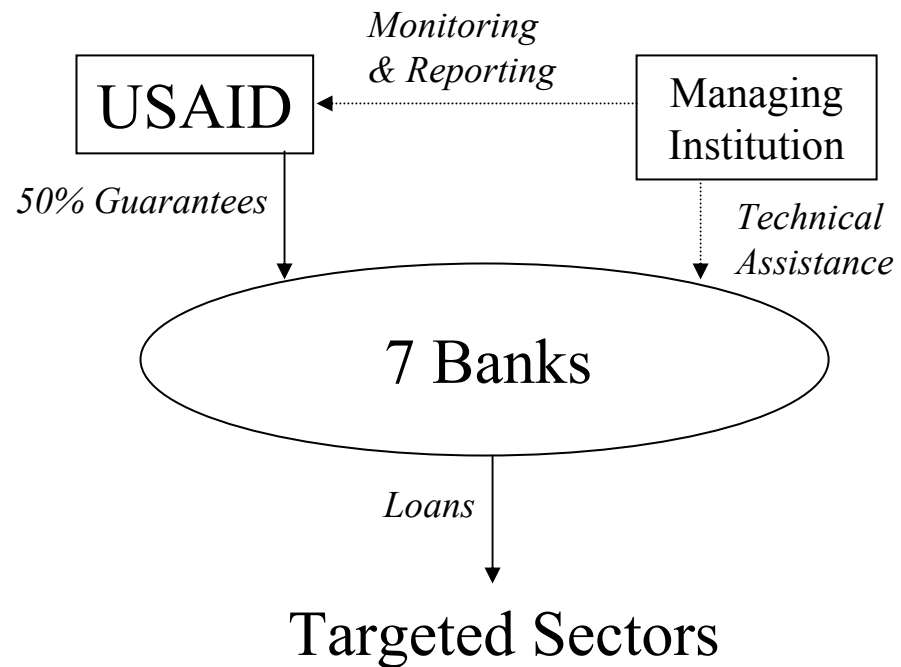


Uganda

Type: Loan Portfolio Guarantee

Amount: \$26,000,000

Purpose: Provides seven banks with a guarantee for loans made in multiple sectors, including SMME development, export sector development, loans to MFIs, and agribusiness development.





DCA example - SMEs

40



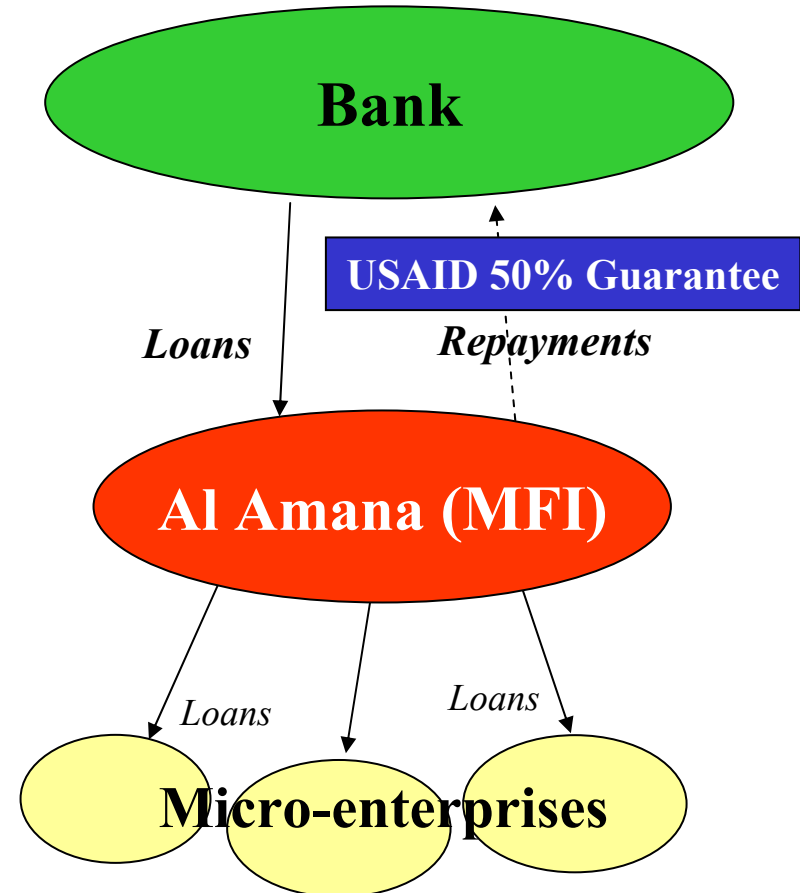
Morocco

Portable Loan Guarantee

Total Loan Amount: \$1,000,000

Portion Guaranteed: \$500,000

Purpose: Increase Al Amana's capital and thereby enable it to provide additional financing to micro-enterprises in Morocco. The USG guarantee commitment letter allows Al Amana to secure more favorable financing terms from local banks that have been reluctant to lend to the microfinance industry.





Fees for using DCA

BANK

Origination fee – commitment fee of .5% to 2.5%

Utilization fee – charged on loans under coverage .5% to 2.5%

Note: There are no initial USAID funds transferred to DCA partners; USAID funds are only paid after a borrower defaults on its loan/bond.





Guiding Principles

- USAID Mission is the point of contact
- Financial institution must take at least 50% of risk
- Currency mismatches are strongly discouraged





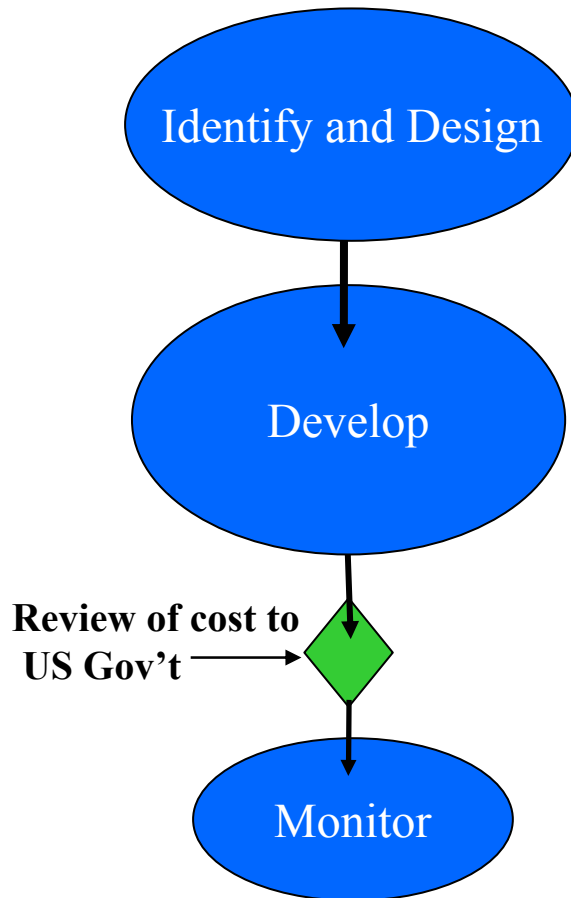
Requirements for using DCA

1. **Projects contribute to USAID Objectives outlines by mission**
2. **Borrowers activity must have positive cash flows**
3. **Risk is shared with private sector financial institution**
4. **Host country participants commit to financial discipline**
5. **Loan would not have been made w/out guarantee**
6. **Projects address a market imperfection**
7. **Used for non-sovereign, private sector activities, including private loans to municipalities**





Implementation of a DCA



- Mission identifies and designs project, locates private sector partner (e.g., bank, non-bank financial institution, NGO, or municipal government)
- Package of information developed: economic and financial viability analyses, monitoring plan, fees
- An independent Credit Risk Assessment is done – reviews levels of risk for the country, lender, borrower and transaction components of the project
- **USAID's Credit Review Board reviews financial analysis and estimate of project's cost to USG**
- Bank reports on loans covered, fees collected and claims paid





Checklist - Preparing Action Package

- ☐ Concept Paper
- ☐ Development Analysis/Activity Description
- ☐ Economic Viability Analysis
- ☐ Financial Viability Analysis
- ☐ Fee Justification Memo
- ☐ Financial Monitoring Plan

- ☐ Risk Assessment
- ☐ Subsidy Calculation





Breakdown of Action Package

Development Analysis

How does project support a Mission's Strategic Objective?

Economic Viability Analysis

Is USAID the "guarantor of last resort"? Is there a market imperfection in the sector and/or related to credit access?

Financial Viability Analysis

Will borrower(s) generate sufficient income to cover operating and debt costs?
Will lender(s) make a profit?

Credit Risk Assessment

USAID Office of Development Credit to calculate "subsidy" cost = 'loan loss reserve' or insurance premium to the Mission

Fees Justification

How were the origination and utilization fees established?

Monitoring Plan

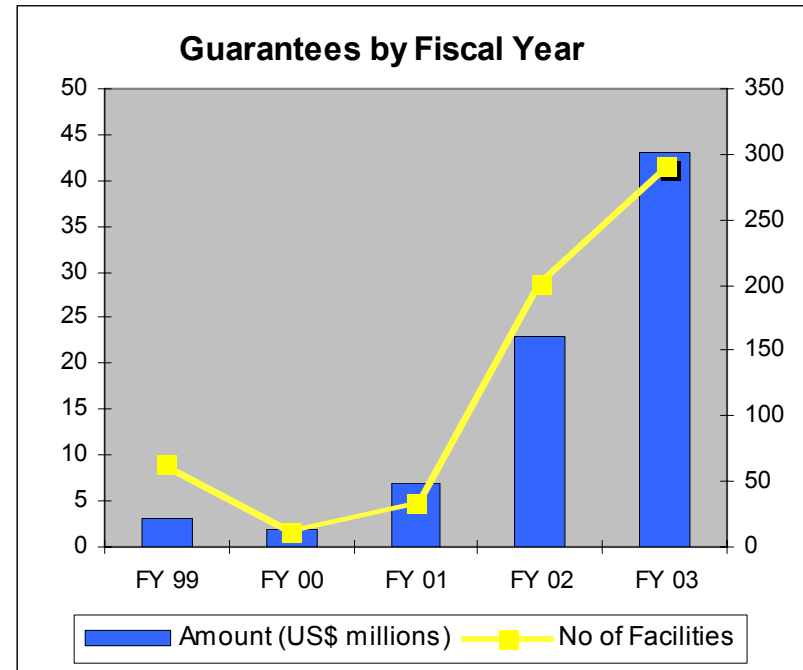
How will the Mission manage the project?





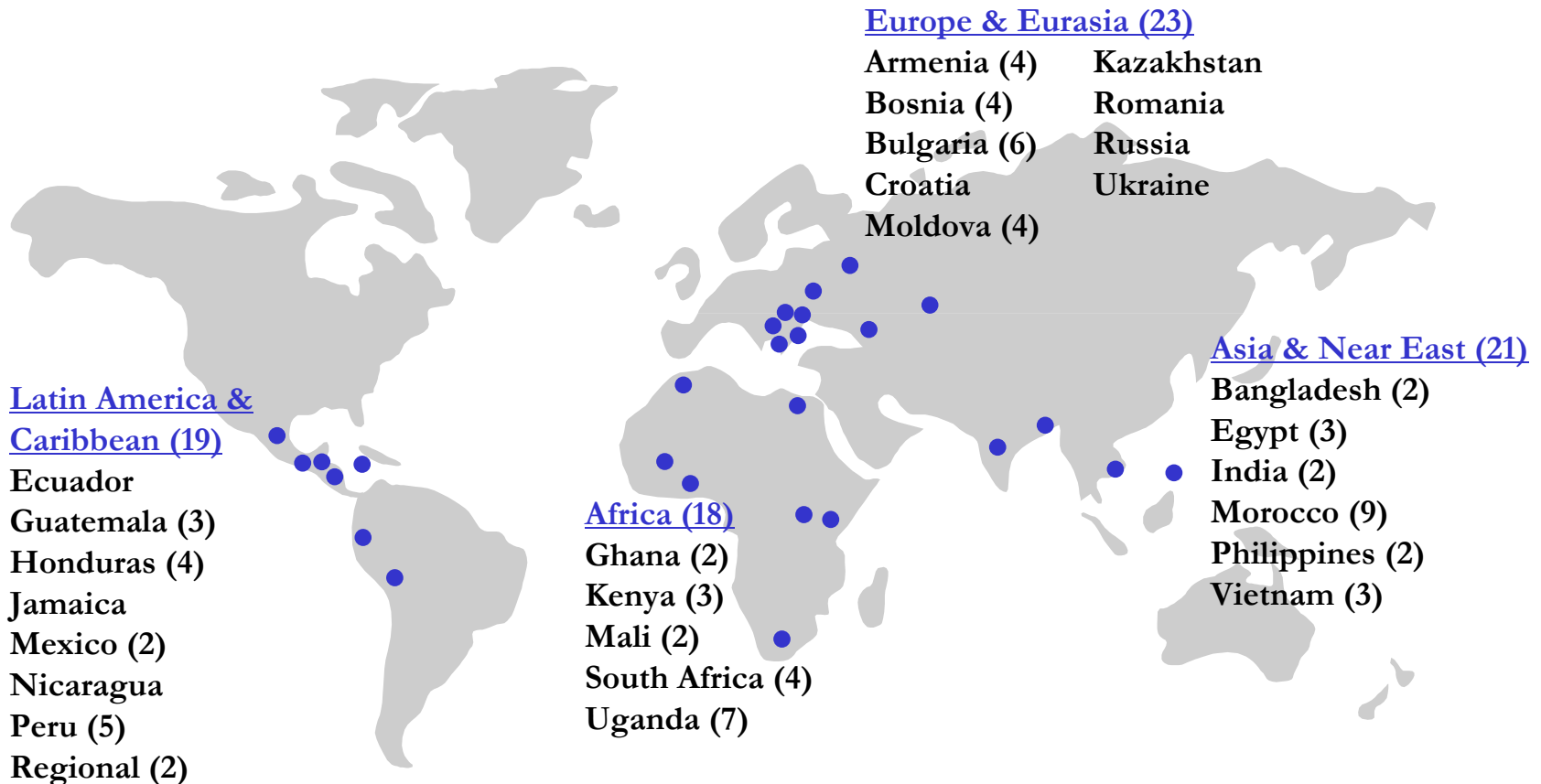
DCA Portfolio to Date

- 80 guarantees to date
- Total loans available – \$600 million
- Portion guaranteed – \$244 million
- Current utilization is \$66 million



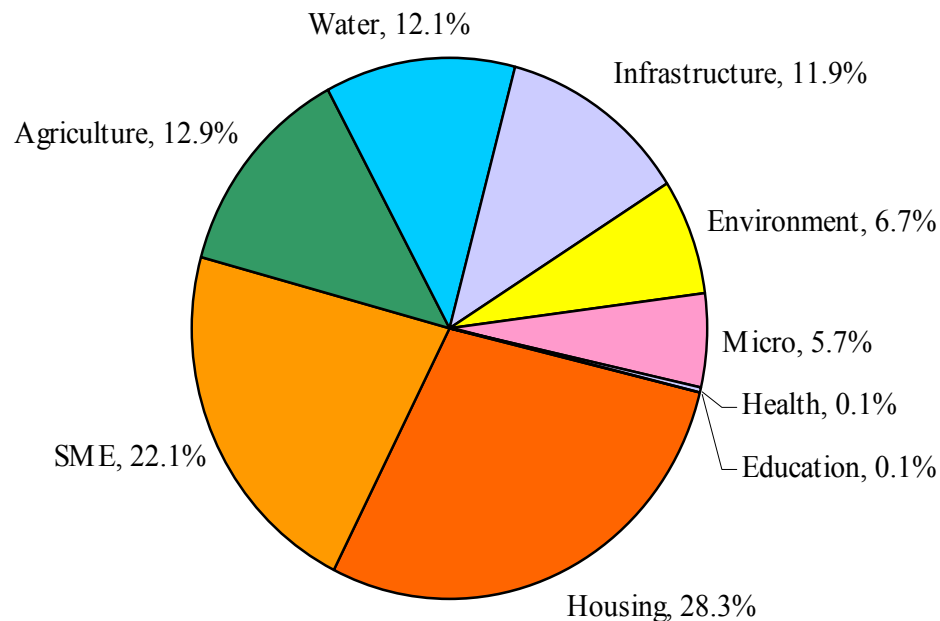


DCA Portfolio – Global Scope





DCA Portfolio – Sectoral Distribution



Housing: Develop housing mortgage lending and secondary mortgage markets

SME: Promote productive investment in small and medium sized enterprises

Agriculture: Promote lending for agribusiness

Water: Support investment in water supply initiatives

Infrastructure: Support infrastructure investments for municipal service delivery

Environment: Credit for environmental conservation and protection initiatives

Micro: Private lending to micro enterprises

Health: Investments in health and medicine

Education: Develop private sector credit mechanisms to support education projects





DCA Contact Info

SO1/SO5 Economic Growth Team

Team Leader - Dann Griffiths 254303/6 – 110
Deputy Team Leader - Chris Muyunda 254303/6 - 140

DCA website:

www.USAID.gov

keyword: Development Credit

